COMMUNICATION FROM THE PERMANENT MISSION OF AUSTRALIA

Addendum

In accordance with the decision taken at the joint meeting of the Protocol Committees on 30-31 May 1985 regarding the adjustment of minimum prices according to exchange rate fluctuations, the following communication has been received from the Permanent Mission of Australia for distribution to all participants.

Attached are also updated graphs which were appended to document DPC/W/46.
Minimum Prices - Accommodation of Exchange Rate Movements

Note by Australian Delegation

Introduction

1. The meetings on 17/18 June 1985 of the three Protocol Committees discussed the question of the need for an additional mechanism to accommodate the impact of exchange rate movements on the minimum prices of the Protocols. There was general agreement that an automatic trigger mechanism to change the minimum prices would be inappropriate. However, it was agreed that participants should submit their views on possible mechanisms in writing to the secretariat for consideration at the meetings to be held in the week commencing 23 September 1985. An outline of Australia's views on this matter is set out below.

Australian position

2. Australia's strong reservations about any automatic trigger mechanism have been expressed on a number of occasions and were illustrated in the paper prepared by the Australian Dairy Corporation of the request of the Australian Government and circulated as document DPC/W/46. (An update of the tables in that document is attached.) Australia also has reservations about the need for any particular mechanism additional to the terms of the existing Arrangement. However, Australia does recognize the concern of some participants to ensure that exchange rate movements do not make the prevailing minimum price structure untenable.

3. Under the provisions of the Arrangement, participants have a prime obligation to ensure that their sales are consistent with the prevailing minimum price structure. Exchange rate fluctuation is but one factor influencing market prices and it would be largely illusory to seek to dissociate the impact of exchange rates from other market forces.

4. The Arrangement already contains adequate safeguards of participants' trade interests with regard to exchange rate movements. In particular, any participant can request special meetings of the Committees to be convened to consider changes to the minimum prices if it considers that its trade interests are being prejudiced by the prevailing minimum price structure. In any case, minimum prices can be considered at any of the regular quarterly meetings of the Committee; only in unusual circumstances would market movement be such as to cause serious unforeseen problems between these meetings. The Australian Dairy Corporation has on a number of occasions suspended export pricing/quoting, during periods of considerable exchange rate uncertainty or movement pending the setting of new export pool returns and other actions to ensure that Australia's f.o.b. prices in United States dollar terms did not fall below the relevant IDA minimums.
5. Under Article 3.3 of the Protocols, the Committees already are implicitly required to take into account the impact of exchange rate movements, in particular with respect to "... the evolution of the situation of the international market" and "... other relevant factors of the world market...". Indeed previous decisions on minimum price levels have been influenced by this exchange rate factor, i.e. by levels of prices returns expressed in members' own currencies. However, if some participants considered that a more explicit statement with respect to exchange rates was desirable, this could be achieved through a resolution of the Committees confirming that their interpretation of Article 3.3 requires exchange rate movements to be taken into account whenever the Committees review minimum prices.

Summary

6. Australia has reservations about the need for any amendments to the current Arrangement to take account of the impact of exchange rate movements on the minimum price structure. However, Australia would be prepared to agree, if other participants considered that it would be useful, to a resolution that made more explicit: (i) the requirement of the Committees to take into account, inter alia, exchange rate movements when reviewing minimum prices; and (ii) the obligation of participants to adjust their export pricing arrangements promptly to ensure that actual prices do not fall below the minimum prices.

Update of international market tables

The attached international market tables for major dairy products include the path the GATT minimum price would have taken if it were varied in response to exchange rate movements, according to an EEC proposal.

The proposal assumes that a 5 per cent movement in the relationship of ECU$s to the US$ would trigger an adjustment to the GATT minimum prices.

You will note from the attached tables that should the EEC proposal have applied since October 1981 when the last adjustment to GATT minimum prices took place, movements in the relationship of ECU$s and the US$ would have required seventeen adjustments up to 2 September 1985. This period has seen a weakening of ECU relative to the US$.

During 1985 six adjustments to the GATT minimum price would have taken place if the proposal were in force. The US$ currency amount for one ECU depreciated from 0.7025 in early January 1985 to 0.6608 in March and then appreciated up to 0.8074 at the end of August.
INTERNATIONAL MARKET - BUTTER
1981/82 - 1984/85

PRICE RANGE

GATT MINIMUM PRICE

Path of GATT Minimum if proposal to change GATT Minimum according to exchange rate was adopted in October 1981

GATT Minimum at September 2, 1985 would have been 915 US$/Tonne FOB.
Path of GATT Minimum if proposal to change GATT Minimum according to exchange rate was adopted in October 1981.

GATT Minimum at September 2, 1985 would have been 457 US$/Tonne FOB.
INTERNATIONAL MARKET - CHEESE

1981/82 - 1984/85

PRICE RANGE

GATT MINIMUM PRICE

Path of GATT Minimum if proposal to change GATT Minimum according to exchange rate was adopted in October 1981.

GATT Minimum at September 2, 1985 would have been 762 US$/Tonne FOB.
Path of GATT Minimum if proposal to change GATT Minimum according to exchange rate was adopted in October 1981.

GATT Minimum at September 2, 1985 would have been 724 US$/Tonne FOB.